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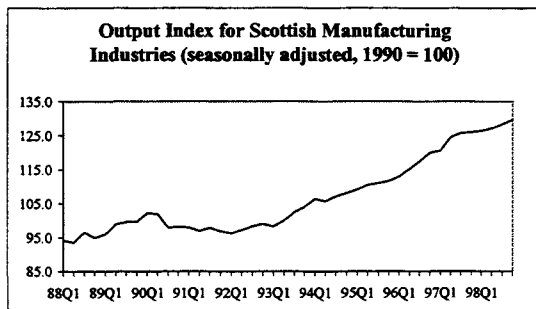
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The SCOTTISH Economy

SHORT-TERM FORECASTS*

This section presents short-term forecasts for the quarterly growth rates of Scottish manufacturing (Division D of the 1992 SIC) output.



The present forecasting period extends to 1998Q4. In making the Scottish forecasts, the past performance of the Scottish and UK manufacturing outputs are considered, and the National Institute's quarterly forecasts for UK manufacturing output are used for driving the Scottish forecasts. Figure 1 depicts the actual growth rates for Scottish manufacturing output from 1988Q1 to 1997Q3 and the forecasts for 1997Q4 to 1998Q4. Due to the downward revisions for the indices for Scottish manufacturing output in 96 and the substantial upward revisions in 97 in the latest Scottish Office News Release, the present forecast for 1997 has also been adjusted upward compared with the previous forecast. The annual growth rate for Scottish manufacturing output for 1997 is predicted to be even stronger than 1996 at around 6.7%. For 1998, it is predicted that the growth trend in Scottish manufacturing output will be maintained in 1998, albeit at a noticeably subdued rate (with

* Development of the short-term model of the economy was made possible by the funding of a three-year research fellowship by TSB Scotland.

the annual growth rate being around 3%). Further details of growth rates are presented in the following table.

TABLE 1. QUARTERLY GROWTH OF SCOTTISH MANUFACTURING OUTPUT (%)	
92/91	0.3
93/92	3.6
94/93	5.6
95/94	3.5
96/95	5.2
95Q1/94Q4	1.0
95Q2/95Q1	1.2
95Q3/95Q2	0.5
95Q4/95Q3	0.6
96Q1/95Q4	1.1
96Q2/96Q1	2.0
96Q3/96Q2	1.9
96Q4/96Q3	2.2
97Q1/96Q4	0.5
97Q2/97Q1	3.2
97Q3/97Q2	1.0
FORECAST	
97Q4/97Q3	0.3
98Q1/97Q4	0.4
98Q2/98Q1	0.6
98Q3/98Q2	0.9
98Q3/98Q2	1.0
97/96	6.7
98/97	3.0

DELOITTE & TOUCHE SCOTTISH CHAMBERS' BUSINESS SURVEY

The Deloitte and Touche Scottish Chambers' Business Survey, which is conducted by Strathclyde University's Fraser of Allander Institute together with the Chambers of Commerce of Aberdeen, Central, Dundee, Edinburgh, Fife and Glasgow, is the largest and most comprehensive regular survey of business, employment and other issues affecting the Scottish business community. In the present survey which was conducted in December, 707 firms responded to the questionnaire.

Business Confidence

In manufacturing, business confidence rose slightly after the fall in the third quarter. A net balance of 3% of respondents reported that they were *more* optimistic in the fourth quarter of this year than

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three months previously, compared with a balance of 11% who were *less* optimistic in the third quarter of this year. In the fourth quarter, manufacturing respondents continued to be more optimistic than they were a year ago, with a net balance of 6% of respondents reporting higher optimism.

In construction, optimism has risen again for the fifth quarter in succession. A net balance of 16% of respondents reported that they were more optimistic than in the third quarter. This compares with a 13% balance of respondents who were more optimistic in the third quarter over the second quarter. A net balance of 22% of respondents reported that they were more optimistic than they were a year ago, a small increase on the balance of 18% reported in the third quarter.

In distribution confidence fell in both retailing and wholesaling. In retailing, a net balance of 10% of respondents were less optimistic about the general business situation than they were in the third quarter, which compares with the 4% balance who were less optimistic in the previous quarter. In wholesaling, a net balance of 5% of respondents were less optimistic than they were in the third quarter. In comparison with a year ago, wholesale respondents were more optimistic, registering a positive net balance of 8%, while in retailing, a net balance of 1% were less optimistic.

Respondents in the tourism and leisure sector reported a decrease in confidence. In the fourth quarter, a net balance of 4% of respondents indicated that they were *less* optimistic about the general business situation than they were three months earlier. A net balance of 4% of respondents were *more* optimistic in the fourth quarter than in the same quarter a year ago.

Orders and Sales

In manufacturing, orders and sales rose and at slightly faster rates than in the third quarter. For orders, a net balance of 8% of respondents reported an increase while, for sales, a balance of 6% of firms experienced a rise. These figures compare with positive balances of 1% for orders and 5% for sales in the third quarter. Major differences continue to be present in the performance of orders and sales in key markets. The Scottish market continues to hold up relatively better with small net balances of 2% and 3% respectively of respondents reporting an increase in orders and sales. Orders and sales broadly remained unchanged in rest of

UK markets but fell appreciably in export markets, with a net balance of 12% of respondents reporting a fall in export orders, while a balance of 11% reported a fall in export sales. However, the rate of contraction of manufacturing export markets appears to have slowed somewhat from the previous quarter.

In construction, new orders showed a further small increase. A net balance of 5% reported an increase in orders compared with a net balance of 3% reporting an increase in the third quarter. Orders from both Central Government and Other Public Sector remain severely depressed, while orders from the private sector again exhibited strong growth; a net balance of 16% of respondents reported an increase in private sector orders, compared with a positive balance of 22% in the third quarter.

Sales growth in distribution was again positive in both key sectors, although growth in the retail sector appears to be slowing down. A net balance of 4% of retailers reported that sales had risen, compared with the 19% balance reporting an increase in the third quarter.

In wholesaling sales also rose, with a net balance of 16% of respondents reporting an increase, compared to the balance of 5% of respondents reporting an increase in the third quarter.

Tourism demand continues to rise but at a slower rate than in the third quarter. A net balance of 17% of firms reported an increase compared with a balance of 28% reporting a rise in the three months to September. Demand increased in domestic markets but there was a decline in tourism from abroad.

Stock Adjustments

Stocks of finished goods and work in progress in manufacturing rose, while stocks of raw materials fell again. A net balance of 1% reported a rise in stocks of finished goods; a balance of 10% reported a rise in work in progress, while for stocks of raw materials the negative net balance was 4%.

Finance and Investment

In the financial sector, the demand for personal loans continued to rise and at a faster rate than in the third quarter. A net balance of 47% of respondents reported an increase, compared with a balance of 25% in the third quarter. The trend in

advances to the corporate sector and the demand for working capital remained strong. In addition, there was continuing strong demand for finance for investment in buildings and for investment in plant and equipment.

Manufacturing investment intentions in plant and machinery showed a further strong increase in the fourth quarter, and at a faster rate than in the previous three months. A net balance of 13% reported an increase compared to a balance of 10% in the third quarter. Further upward revisions are expected during the first quarter of this year. Investment intentions in land and buildings have turned negative, with a net balance of 1% of respondents reporting a decrease, compared to a balance of 2% reporting an increase in the previous survey. Further expansion in land and buildings investment is anticipated during the first quarter. In construction, investment intentions have become negative again both for plant and equipment, and for buildings. In retailing and wholesaling, investment intentions continue to be significantly positive. Net balances of 19% and 13% of retail and wholesale respondents, respectively, reported an upward revision in investment intentions compared to the same period a year ago.

Business trends

In manufacturing the net increase in cashflow trends remained unchanged at +7%, whereas in both wholesale and retail distribution cashflow trends worsened to a net of -2% in wholesale and from +4% to -1% in retail.

Turnover in manufacturing rose slightly to a net increase of +39%. In wholesale the rise eased one percentage point to +27%, whilst in retail the rise was nine percentage points lower at a net of +20%.

In tourism a net of +55% reported increased turnover, this rate of increase is expected to ease to a net of +17% in quarter one. The net increase in turnover continued to exceed the increase in costs through the fourth quarter, but anticipated increases in costs are expected to be closer to the increase in turnover in the first quarter.

The rise in profit trends rose two percentage points in manufacturing to a net of +16%, and five points to a net of +30% in wholesale. In contrast, in retailing the rise eased fourteen percentage points to a net of +9%.

In manufacturing the pressures to raise prices are generally higher than in the previous quarter, with pay settlements, raw material and finance costs the main pressures. In wholesale pressures to raise prices were higher due mainly to raw material and finance costs. In retail pressures were mainly overheads and finance costs. Manufacturers were more concerned as to exchange rates than in the previous quarter, whilst in the service sector competition, interest and business rates were the main concerns.

Expectations

The outturn for demand, or sales and orders in the fourth quarter was appreciably *worse* than expected by respondents in the third quarter in only one principal sector: retailing. In manufacturing, the outturn was more or less as expected by third quarter respondents while in wholesaling and tourism the outturn was better than expected.

Demand conditions are expected to improve in both manufacturing and construction in the first quarter of this year. The expected improvement in manufacturing demand is, however, expected to be slight and further contractions are anticipated in export markets. A small deterioration is expected in retail sales and a significant deterioration is anticipated for both wholesale and tourism demand, particularly from overseas tourists.

CONSTRUCTION

The latest Index of Production and Construction for Scotland shows a reduction in construction output over the third quarter of 2.5% however compared to the same quarter one year earlier an increase of 1.8% is recorded. For the UK as a whole although there was a fall of 0.1% for quarter two over quarter three an increase of 2.8% is recorded for the year to quarter 3 1997.

Results from the latest Deloitte & Touche Scottish Chambers' Business Survey reveal that half the responding firms reported changes in confidence with the trend in confidence continuing to rise, strengthening to a net of +16%. Compared to the same quarter one year earlier a net of 21% reported feeling more optimistic about the general business situation.

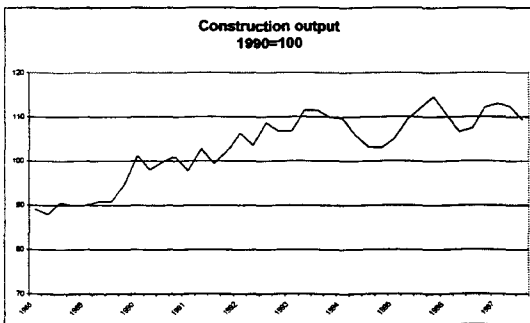
The rise in orders was stronger than anticipated, a net of +15%, and firms remain confident of an increase in the next quarter. As in previous quarters the rise in private orders compensated for the

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continued decline in total Government and other public sector orders however firms expect the trend in private sector orders to ease slightly during the first three months of 1998. In spite of the expectation that private sector orders will continue to increase, the percentage citing the low level of demand as the factor most likely to restrict activity in the current quarter rose from 71% in quarter three to 82%.

Changes to investment were made by only 30% and against expectations a slight fall in investment was reported. Of those authorising investment in the fourth quarter 54% directed investment toward the replacement of equipment and 25% toward increasing capacity.

A net of 11% increased total employment during the fourth quarter and this net increase is forecast to continue through the first quarter of 1998.



According to the New House-Building Statistics applications to the NHBC to start new homes in the fourth quarter of 1997 were 37,700 which was a decrease of 8% compared to the third quarter but an increase of 2% compared to the same quarter of 1996. Sales of new homes in the fourth quarter of 1997 were 617 per day and though this was an increase of 1% on the third quarter of 1996, it was a 3% decrease on the same quarter one year earlier.

The latest Halifax House Price Index (seasonally adjusted) for the fourth quarter reports an increase in house prices in the UK of 1.1%. For February 1998 the index stands at 227.1 and shows no increase on a monthly basis which follows a small increase of 0.6% in January. On an annual basis house price inflation remained at 5.8%. House prices in Scotland fell by 0.4% on a monthly basis and by 1.9% on an annual basis.

Balfour Beatty announced in February a substantial reorganisation involving the creation of a new 'large projects' division. Balfour Beatty Civil

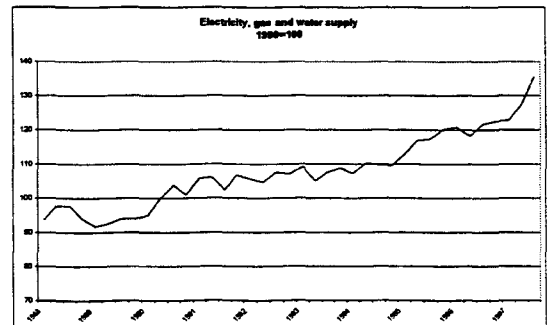
Engineering and Balfour Beatty International are to be merged, the new organisation will not carry out work valued at less than £40m and will not operate in the US where Balfour Beatty Construction will retain responsibility.

Crest Nicholson announced buoyant results in February, pre-tax profits doubled to £20.5m during the year to October 31. Rising house prices and a better mix of property for sale contributed to the increase in profits. Prior to this Bryant reported an increase in profits of 38% to £21.3m before tax. This was in spite of a 5% fall in house completions in the six months to November 30. The company still expects to achieve an unchanged total of approximately 4,000 homes for the full year.

ENERGY

Oil & Gas

Oil and gas production rose by 3.4% and 62.6% respectively for Q4 1997 on Q3 1997. The Royal Bank of Scotland Combined Index increased by 16.9% over the quarter while the daily average total output (barrels of oil equivalent) increased by 24.8% for the same period. There was little change in the oil price for Q4 on Q3 but nevertheless the daily average oil value increased by 5.7% to £29.6 million in Q4 and the daily average total value rose by 21.3% to \$46 million in Q4.



In comparison with Q4 1996 oil production, prices and revenues have all fallen. Gas production has remained relatively steady though. Over the year oil production fell by 2.5%, and the price of oil declined from \$25.31 to \$18.78, a 25.8% decrease over the year. Daily average oil revenues fell by 23.5% from £38.7 million in Q4 1996 to £29.6 million in Q4 1997. Total daily average revenue decreased by 17.9% over the year from £56.2 million to £46.1 million.

The fall in the price of oil is the main factor in falling revenues. In 1997 average daily oil and gas revenues were £44.3 million compared to £48 million in 1996. Despite the fall in prices there are now 101 oil fields in production, which is an all time high. The prospects of higher oil prices are fairly remote. Increased OPEC quotas, a decline in demand especially in Asia, the advent of Iraqi supplies and the mild winter are all factors depressing price. The only upward pressure is uncertainty over the Gulf situation. This view is reinforced by current evidence where the oil price has dipped below \$13 at the time of writing.

In 1997 oil production averaged 2.5mbpd down 1% on 1996 but only 3.4% below the peak production figures of 1985. Gas production averaged 8,731mmcf in 1997 a 3.7% increase on 1996. Brent crude averaged \$19 per barrel in 1997 a decline of 7.1% on 1996. In 1997 in real terms the sterling price of oil per barrel was £11.67, 67.6% below the 1983 level. Daily oil revenues averaged £29.4 million last year, a decrease of 12% from the 1996 level. Gas revenues rose by 2% on the 1996 figure to stand at £14.8 million per day while combined revenues for 1997 were £44.3 million per day.

UTILITIES

The Index of Production and Construction for Q3 1997 for electricity, gas and water supply in Scotland increased by 5.7% on both a quarterly and an annual basis. In the UK the annual change was 3.9%, similar to the quarterly change. Output growth in Scotland and the UK is broadly similar with Scotland benefiting from exports to England via the interconnector.

Electricity

Competition in the domestic electricity market will be delayed due to deficiencies in the electricity trading systems. This has caused a severe disagreement between the electricity supply companies and the regulators Offer and Ofgas. When the delay was announced Centrica proposed that electricity supply companies should not be allowed to offer 'dual fuel' deals to potential gas customers in their own market areas while gas companies cannot sell electricity. Ofgas backed the move. Despite support from Offer the regulators failed to persuade the electricity companies to comply with their request. The

electricity supply companies have openly defied the regulators by refusing to stop selling gas and run the risk of a Monopolies and Merger Commission review should Ofgas take the view that their entry into the liberalised gas market constitutes unfair competition.

There are growing concerns for the promotion of competition in electricity supply while the moratorium on gas fired power stations remains in place. The ban will impact on efforts by new entrants and smaller generators to provide electricity, using gas fired power stations that are cheaper than coal to build and operate. Gas provided 20% of the UK's electricity in 1996. The review of the issue was instigated because of fears for 5,000 miner's jobs, which led to the moratorium.

Recent research has revealed that Scottish Power is responsible for nearly 1% of the UK economy and supports 153,000 jobs directly and indirectly. The study shows that the group supports 2.1% of Scottish output and 1.2% of Scottish employment. In 1996/97 the company, currently valued at £5.5 billion, contributed £5.6bn to the national economy.

Scottish Hydro reported a 126% rise in profits to £36.4M for power generation and supply south of the border but a 15% fall in profits to £16.6 million in Scotland, the latter mainly due to price competition. Group pre-tax profits for the six months up to September were £71.9 million, up 17.3%. South of the border the share of profits rose to 30% up from 25% last year. Hydro is to invest £220 million in its 1,550MW power station in Peterhead. Further expansions in England are likely to take place especially at Keadby where the capacity could be increased to 1390MW and at Seabank to 1930MW. These changes would cost £400 million over five years.

Gas

Centrica has signalled an end to the dispute with the North Sea producers over their 'take or pay' contracts. The latest company to settle was Chevron which has unwound its contract with Centrica. In total approximately £750 million has been paid to settle contracts totalling 46.5bn therms. Centrica has now lowered its external cost of gas to 15p per therm, just 1-2p above the market rate.

Water

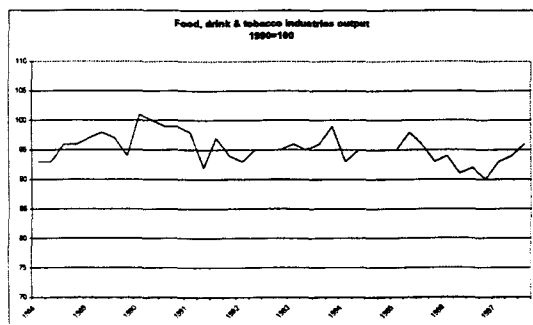
Scottish Power is part of a consortium bidding for a £35 million waste water project in the West of Scotland. It is also on the shortlist for a further £200 million worth of similar schemes in Scotland.

MANUFACTURING

FOOD, DRINK AND TOBACCO

The Index of Production for the Food, Drink and Tobacco (FDT) sector in Scotland stood at 96 in the third quarter of 1997 (1990=100), a 1.8% rise from its second quarter level. Both constituent parts of the sector rose, with Food and Tobacco increasing by 0.9% and Drink by 2.5%. The index for All Manufacturing across Scotland increased by 0.9% during the same period.

While welcome, however, this short-term increase is against the background of a reduced level of output over the year, with the level of production in FDT falling over the year to the third quarter by 0.8%. This is largely due to a fall in Food and Tobacco production, down 1.8%, while Drink production increased by 0.1%. Output in All Manufacturing in Scotland increased by 7.4 % over the year to the third quarter. FDT in Scotland outperformed the industry across the UK in the third quarter, where output increased by only 0.6%. However, over the year to the third quarter UK output increased by 1.4%.



The Deloitte & Touche Scottish Chambers' Business Survey (DTSCBS) provides performance figures covering the fourth quarter of 1997. It shows that the level of optimism in FDT has recently been positive, with a net of 17.7% of survey respondents feeling more optimistic about the industry's position than three months previously, and 20.6% felt more optimistic than at the same time last year. The actual trends in orders

and sales rose for a net of respondents although were weaker than anticipated. During quarter one 1998 export demand is expected to continue to decline however a rise in domestic demand is expected to offset this. Capacity utilisation fell to slightly 74%. Changes to plant/equipment investment continued to rise more slowly than in previous quarters but a stronger rise is anticipated. Profitability is expected to improve for a net balance of 41% of firms, and employment to rise for a net of 12%.

News from the company sector includes the decision by Diageo, the company formed by the merger of Guinness and Grandmet, to close the Perth HQ of United Distillers. The new company is to move United Distillers HQ to Essex, and this is expected to reduce total jobs in the new company by around 200. The new company's Scottish employees are expected to be offered other jobs within the group.

Elsewhere, Scottish and Newcastle (S&N) has purchased 300 pubs from the Japanese securities firm Nomura. The new pubs are located mainly in Southern England and S&N is expected to develop them to extend its existing chains. Because the purchase will take it above the 2,500 limit on tied houses, it is expected to sell around 300 mainly smaller pubs in the North of England and in Scotland.

Finally, Barr's Irn Bru managed to more than double profits last year, from £5 million to £10.8 million, due to lower raw material costs (sugar and plastic for bottles) and the benefits of investment in a new factory. At the same time it announced the appointment of a new Managing Director "in waiting", the first time control of the company will have moved outside the Barr family. Because of this, the secret recipe for Irn Bru will also be disclosed to an outsider for the first time since its discovery. Barrs have also announced a joint venture with a Russian company, Selko, no doubt hoping to spread the supposed benefits of our "other" national drink to that county's vodka drinkers.

ELECTRONICS

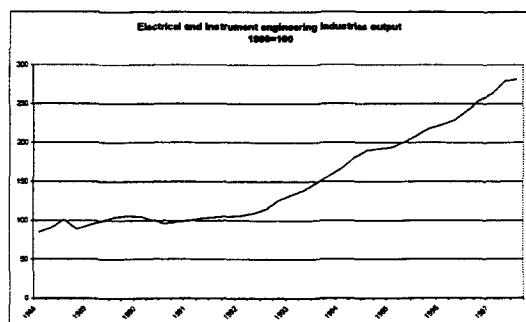
The latest Index of Production and Construction for the Electrical and Electronic Engineering (EEE) sector in Scotland reported a modest increase of 0.7% to the third quarter of 1997. Although year on year growth to the third quarter of 1997 indicated a substantial 18% rise, the quarterly rise in output

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was not in line with recent output growth by this sector. Moreover, growth in electronics over the last quarter is below the average for all manufacturing, where output increased by nearly one per cent. UK output in the EEE sector increased by 1% from the previous quarter and 2.4% over the year.

The most recent Deloitte & Touche Scottish Chambers' Business Survey reveals a slight decrease in the level of business optimism for the sector as compared with the previous period. However, overall the general level of business confidence in this sector remains positive, although respondents are not as optimistic about the current business climate as the same time one year previously.

The trend in the total volume of new orders, over the last quarter, reveals a slight increase in net orders for a small positive net balance of respondents, that stems primarily from an increase in rest of UK orders. The actual trend in the total volume of sales over the same period increased for a net positive balance of respondents across Scottish and RUK markets, although exports sales fell for a net balance of respondents. The overall trend in the total volume of sales, over the forthcoming quarter, is forecast to be positive with increased demand from the RUK market. Exports sales are again forecast to fall for a net 10 per cent of respondents over the forthcoming quarter.



Average capacity utilisation for respondents in this sector fell modestly to 79%, which 30% of respondents regarded as being lower than one year previously. Investment in plant and equipment was revised upward for a net 13% of respondents, while investment in land and buildings was decreased by a small net balance of respondents. Of those firms who undertook investment in the previous three months, increased efficiency and the need to reduce labour were nominated as the most

important reasons behind the decision to invest. Investment intentions for both plant and equipment and land and buildings are expected to remain positive over the forthcoming quarter.

Total employment over the previous quarter increased for a positive net balance of respondent firms (13%). The Deloitte & Touche Scottish Chambers' Business Survey also reveals that over half of all respondent firms attempted to recruit staff over the same period. Of those respondent firms who attempted to recruit staff, around one third experienced increased difficulties recruiting professional/managerial and technical staff. The trend in total employment is forecast to remain positive over the next three months with a net balance of respondents (15%) expected to increase total employment. Over the past quarter, 22% of respondent firms increased wages and salaries by an average 3.8%.

The general business outlook in this sector remains positive with over half of all respondents expecting both turnover and profitability to increase over the next year. However, concerns remain over interest rates, orders and sales and the exchange rate. In particular, export sales and demand have fallen in this sector over the past quarter for a net balance of respondents. The impact of the decline in export orders and sales in this sector has been partially offset by growth in demand from the rest of UK market. Future prospects of growth in this sector remain positive although there are increasing signs that a modest slowdown may prevail due to fall in international sales (see note about profit warnings by international companies in company sector).

Following the postponement by the Hyundai Group of its planned semi-conductor plants in Fife, US company Cadence Design Systems chose Livingston as the site for a new microchip design centre. This total investment, estimated at around £200 million, will develop the world's first system level integration institute creating up to 1,895 highly-skilled jobs over the next seven years. The research and development (R&D) operation will train high-tech engineering students to design microchips. The new design centre will be supported by four Scottish Universities (Edinburgh, Glasgow, Heriot-Watt and Strathclyde), who will work in partnership with the company to supply highly-qualified graduate engineers.

The significance of this inward investment by Cadence Design Systems is that it brings to the

Scottish Electronics Industry a major investment in software development. Typically, international companies chose Scotland as a location primarily for production with research and development activities undertaken elsewhere. The establishment of this design centre and the creation of highly-skilled graduate jobs may lead to further spin-offs for both the industry and the Scottish economy. For instance, the location of the design centre may attract further R&D type investments to Scotland because of the specialised workforce that will be developed by the design centre, and the availability of highly skilled graduates through the Industry's partnership with the Scottish Universities. More importantly, this investment may help to develop a critical mass of activity in this industry that would create a specialised environment in Scotland that would not only attract further investment but lead to the creation of new Scottish firms.

In the company sector there was much activity over the past quarter. Compaq Computer, the US personal computer market leader, is to acquire Digital Equipment Corporation for £5.8 million in a deal that makes it the second largest seller of computer products. Both companies are major employers in Scotland with over 3,500 jobs supported at their production sites at Erskine, Irvine and Ayr. Consolidation of the groups' business interests in Europe will obviously take time. NCR, the electronics company that is a market leader in automatic cash machines is set to review its Scottish operations. The company, which exports world-wide, employs around 1,800 at its plant in Dundee and another 100 in Dunfermline. The strategic review may lead to stream-lining at the Dundee plant.

Prestwick Holdings, the UK's largest independent printed circuit board maker increased both export sales and pre-tax profits by 29 per cent to £918,000. The company, which has around 750 workers in plants at Irvine and Ayr increased turnover in the 6 months to 1 February by 22 per cent to £23 million. The growth in sales has been driven largely by exports sales that now account for 70 per cent of total sales. The company continues to perform well in spite of the strong pound and is committed to further capital investment of around £5 to £6 million over the next 12 months.

Profit warnings from Compaq, Intel and Motorola over the last two weeks have led industry observers to suggest that this may signal weaker sales and earnings throughout the sector. The profit warnings

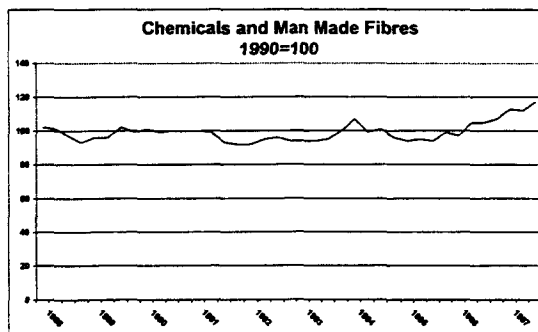
are a result of both falling sales in the sector and the increasingly competitive nature of the industry which has led to a reduction in price margins.

CHEMICALS

The Index of Production and Construction for Scotland for the third quarter of 1997 showed positive growth rates for 7 of the 11 industry sectors within manufacturing one of which was chemicals. An increase of 4.2% was recorded for quarter 3 over quarter 2 1997 while annual growth was stronger at 10.5%. For the UK as a whole however the figures were not as buoyant with growth of 1.6% over the quarter and 0.4% over the year.

Results from the latest Deloitte & Touche Scottish Chambers' Business Survey, quarter four 1997, would suggest however that respondents are not optimistic about the general business situation with nets of respondents reporting declining confidence compared to both the previous quarter and the same period of 1996.

The decline in confidence reflects the trends in orders and sales; orders from all sources declined during the fourth quarter while only sales to rest of UK rose. The decline in export orders and sales was particularly severe with only 7% of firms reporting increasing demand. Respondents expect the decline in the trend in orders to ease to a net of 0% during the first quarter of 1998 while the decline in sales is forecast to continue and at much the same rate. The following factors were thought to be of greater concern than in the previous quarter exchange rates [55%]; orders/sales [45%]; interest rates [35%] and competition [35%].



Over the next twelve months a net of firms expect both turnover and profitability to improve. Cashflow improved for only 24% of firms during

the fourth quarter while 19% noted a deterioration. During the current quarter 38% expect to increase the price of goods/services while only 10% expect to reduce prices. Pressure to raise prices is expected to arise as a consequence of raw material prices [38%], pay settlements [31%] and finance costs [25%].

Firms revised investment intentions in both plant/equipment and land/buildings downward during the fourth quarter and little change is forecast for the current quarter. Investment authorised during the fourth quarter was directed more toward replacement of existing machinery and reduction of labour but to a lesser extent increasing efficiency and capacity expansion.

Changes to employment were at the margin with 14% of firms increasing total employment and an equal number reducing employment. Few expect to make changes during the current quarter however the balance of firms expect to increase total employment.

Slightly more than half sought to recruit and activity was widely directed. Although none reported any increase, those seeking to hire professional/ managerial staff, manual and part time staff encountered recruitment problems. Only 10% of firms reported difficulty retaining staff.

Glaxo Wellcome is seeking institutional backing for a possible hostile bid for rival SmithKline Beecham (SKB) subsequent to the collapse of the planned merger between the two companies. This followed a disagreement between the chief executive of SKB and the chairman of Glaxo. The proposed merger followed the failure of a possible merger between SmithKline Beecham and American Home Products (AHP). SKB ended negotiations with AHP after agreeing in principle a deal with Glaxo for what would have been the world's biggest corporate deal. The proposed merger between SKB and Glaxo was likely to result in job losses at Glaxo's Montrose site and the SKB chemical plant at Irvine.

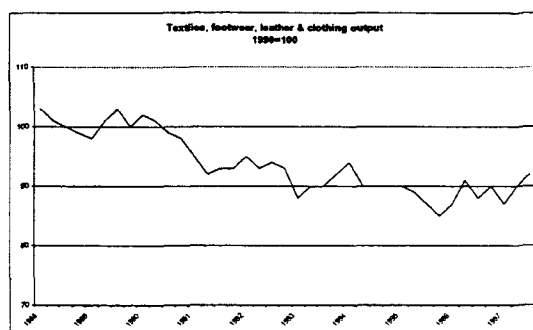
Following the launch of a yoghurt, Maaväl, shares in Scotia, the biotechnology company, rose 22½ p to 325p, however by mid March this had fallen to less than 300p. The yoghurt contains Olibra, a patented combination of palm oil extract, oat oil and water which aids dieting. Scotia announced in February a loss of £20.7m for 1997 which was much as expected; a loss of £19.1m was reported in 1996. Despite a 43% increase in sales of Efamol,

the nutritional business (from £8.4m to £12m) pharmaceutical sales fell 15% to £6.9m largely as a result of generic competition in Germany.

TEXTILES, FOOTWEAR, LEATHER AND CLOTHING

The Index of Production for the Textiles, Footwear, Leather and Clothing (TFLC) sector in Scotland stood at 92 in the third quarter of 1997 (1990=100), a 2.8% rise from its second quarter level. This increase follows a reduction between the first and second quarters of 3%, and the level of production shows a 2.1% rise over the year to the third quarter. While these increases are welcome, the sector's performance over the year is below that of the rest of manufacturing. In the year to the third quarter, output in All Manufacturing in Scotland increased by 7.4 %. However, the TFLC sector in Scotland did outperform the industry across the UK in the third quarter, where output fell by 0.2%.

The Deloitte & Touche Scottish Chambers' Business Survey (DTSCBS) provides more recent performance figures, covering the fourth quarter of 1997. These show a worrying recent set of results concerning the level of optimism in the sector. For example, a net 26.5% of respondents felt less optimistic about the industry's position than three months previously, while 12.5 % felt less optimistic than at the same time last year, despite the increases in output observed above.



The actual and expected trend in orders is clearly the part of the reason for this, with a net 21.2% reporting that the actual trend was down in the three months prior to the survey and a net 21.2% also reporting that they expected the new order position to deteriorate further in the next three months. There were net reductions in both actual and expected new orders in all three major markets - Scotland, the rest of the UK and export markets - but the greatest threat to future business appears to be an expected reduction in orders from outwith

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Scotland. Capacity utilisation stood at 76%, and there was no change in this level from that seen one year previously. Not surprisingly, however, investment intentions are down for a net 20.6% of respondents. Profitability is also expected to fall for a net 6.15% and a net 18.2% expect employment to be reduced in the coming three months.

News from the company sector includes an announcement by Dawson International that it expects to shift more work overseas in order to reduce costs. Dawson recently moved a de-hairing plant to China from Bradford. The company attributes pressures to make these decisions on the strength of sterling and expects that others could follow.

Elsewhere, Grampian Holdings is to sell several of its textile interests in order to focus on its core retail and transport interests. The golf, knitwear and sportswear operations have net assets of around £10m, and Grampian plans to use the proceeds, among other things, to open around thirty new Edinburgh Woollen Mill stores.

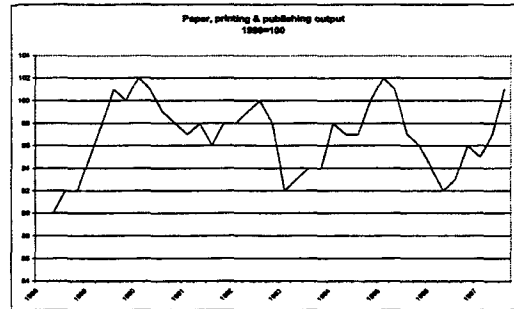
Finally, the Renfrewshire-based carpet company Stoddard announced that it expects to lose around £1.5m this year and that the trading situation was "horrific", following poor sales last year. The company, which has factories in Kilmarnock and Elderslie, also expects to announce a round of job-cuts in the near future.

PAPER, PRINTING AND PUBLISHING

The Index of Production and Construction for the Paper, Printing and Publishing sector in Scotland increased by 4.5% in the third quarter of 1997, to stand at 101 (1990=100). The previous recorded rise of 1 per cent, reported in the last Commentary, was revised downward to a fall of 1 per cent over the second quarter of 1997. Annualised growth in Scotland increased by 3.2%. The corresponding UK figures reveal output growth increased by 1% to the third quarter of 1997 and annualised growth increased by 0.5 per cent.

The most recent Deloitte & Touche Scottish Chambers' Business Survey reveals an increase in business confidence in this sector, for a positive net balance of respondents, over both the previous quarter and the same period one year ago. The anticipated rise in the trends in total orders, noted by respondents in the previous Commentary, was realised across both Scottish and RUK markets although the trend in export orders fell over this

period. The trend in the volume of sales over the same period mirrored total orders with increased sales across Scottish and RUK markets, although export sales again fell. This trend in orders is forecast to continue into the next period.



The average level of capacity utilisation for the Paper, Printing and Publishing sector has increased over the last quarter, and now stands at 81%. Investment intentions in this sector, over the past quarter, were revised upward for both plant and equipment and land and buildings for a positive net balance of respondents. Of those respondents who undertook investment, 64 and 46 per cent, respectively, nominated reducing labour and replacement as the main reason for the investment. In the forthcoming quarter, investment intentions for both plant and equipment and land and buildings are forecast to be revised upward for a positive balance of respondent firms.

The latest Deloitte & Touche Scottish Chambers' Business Survey also reveals that total employment decreased over the past quarter for a small net balance (3%) of respondent firms. Total employment is forecast to rise over the forthcoming period. The number of respondents attempting to recruit staff over the past quarter (47%) was lower than the previous quarter. Of those firms who did attempt to recruit staff, 19% noted increased difficulty in recruiting skilled manual workers.

In summary, the increase in output growth over the past quarter, coupled with the positive trends in Scottish and RUK orders and sales suggest a more positive outlook for this sector. Business confidence has also increased in the sector and the outlook for both turnover and profitability, over the next 12 months, are positive. However, sustained growth is unlikely given both the continued decline in export sales and orders.

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In the company sector, Caledonian International the former Harper Collins book printing operation urged staff to buy a 30 per cent stake in the business as part of a financial rescue package following losses of £1 million last year. The company hopes to raise £700,000 by the offer with the money being injected into the business to ease its cashflow problems.

The paper, packaging and printing industry in the UK may face a shake up following the consolidation of the industry worldwide. Quebecor Printing's hostile bid for Watnoughs and the recent move for the Britton Group by Carastar suggest that the spate of international takeovers in the Industry over the past year may hit the UK sector. A main factor behind the consolidation of the Industry worldwide has been the rationalisation of supply bases, by larger customers. Essentially, these large multi-national consumer groups are choosing to deal with only one or two suppliers across all their markets. Accordingly, firms in this industry have reacted and are looking to expand operations to accommodate these customers. Watnoughs have been able to hold off the hostile £188 million bid from Quebecor Printing, but given the poor performance of the UK sector, future acquisitions and mergers may be likely.

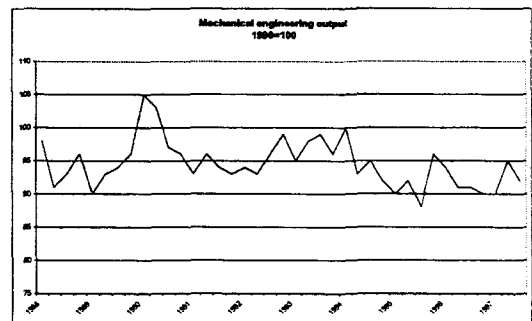
MECHANICAL ENGINEERING

In the previous Deloitte & Touche Scottish Chambers' Business Survey (DTSCBS), the largest proportion of the responding firms reported increases in their total volume of new orders and sales in Q3 97. This led us to believe that the much improved performance of this industry in Q2 97 might last until the end of 1997. However, the latest Scottish Office News Release (4 February 1997) showed a 3.5% reduction in Scottish Mechanical Engineering output in Q3 97. This fall in output might have arisen from the following factors: 1) the fall in sales in the small number of firms dominated the increase in sales in the remaining firms; 2) a large proportion of the increase in sales might have been met by existing stocks rather than new production; 3) reporting error; 4) a combination of the above factors. The latest DTSCBS provides some evidence to support the second explanation: on balance more firms were running down stocks in Q4 97.

The latest DTSCBS shows a very uncertain picture of this industry in the final quarter of 1997. In terms of business confidence, the majority of the firms saw no change in business optimism in Q4 compared with the previous quarter. The number

of optimistic firms exactly balanced the number of pessimistic firms. Compared with the situation a year ago, more firms were less optimistic, on balance.

This deterioration in business confidence seems to arise mainly from the poor actual and expected volumes of export sales and orders. In Q4 97, although a slightly larger number of firms experienced increases in their new orders from and sales to the domestic Scottish and UK markets, export orders and sales were disappointing and are expected to remain poor in the first quarter this year. The expected domestic new orders and sales in Q1 98 are also flat.



Although investment intentions in Q4 remained unchanged from Q3 in most of the firms, on balance investment plans for both plant/equipment and land/buildings rose in more firms in Q4 97 and are expected to do so in Q1 98. For those firms that authorised investment in Q4 97, the main reasons were: reducing labour costs (65.2%), increasing efficiency (39.1%), replacement (34.8%), and introducing new technology (26.1%).

In Q4, just over a quarter of the firms were under pressure to raise their prices because of increased prices of raw materials and finance costs. Nearly half of the firms were concerned about the rise in interest rates and, to a slightly lesser extent, a shortage of skilled labour. However, despite the difficulties in the short-term, firms on balance expect their turnover and profitability to improve over the next 12 months.

On the job front, although the majority of firms reported no change to the level of employment at all, on balance more firms reduced employment in Q4 97. However, this setback is of a temporary nature and the situation is expected to improve in the first quarter this year. The generally sluggish state of this industry has helped keep the wage claims modest. Nevertheless, the difficulty with

recruiting suitable employees in particular occupations, especially technical and skilled workers, became more acute in Q4 97 (77% of firms had difficulties in this regard).

SERVICES

DISTRIBUTION

Evidence from the latest Deloitte & Touche Scottish Chambers' Business survey (Quarter 4, 1997) showed that confidence among wholesalers declined during the fourth quarter, only 18% of firms noted an increase in confidence while 23% reported declining confidence. Compared to the same quarter one year earlier however a net of 8% reported being more confident. Confidence among retailers continued to decline during the fourth quarter despite the upward trend in sales. A net of 10% reported being less confident than in the previous quarter survey while a net of 1% reported being less optimistic compared to the same time one year earlier.

Compared to the same quarter of 1996 a net of 16% reported an increase in wholesale sales. Wholesalers expect the trend to remain upward during the current quarter although the rate of increase should ease. The trend in retail sales, compared to the same quarter one year earlier, remained upward although the rate of increase eased considerably. During the first quarter retailers expect the upward trend to continue though at a slower rate of increase.

Wholesale firms expect both turnover and profitability to improve over the next year (nets of +27% and +10% respectively). Although cashflow fell during the fourth quarter for a net of wholesalers almost half reported no change. Over the next twelve months nets of +19% and +9% of retailers respectively expect turnover and profitability to improve. Cashflow improved for a net of only +1% during the fourth quarter as 31% reported an increase while 30% reported a fall.

Only 8% of wholesale firms expect the price of their goods and services to fall during the current quarter while 38% expect prices to rise. Factors, which are considered most likely to affect prices include raw material prices [29%], cost of finance [23%] and pay settlements [19%]. Over 40% of respondents cited other overheads. Only 3% of retailers expect the price of their goods and services to fall during the current quarter while 48% expect to increase prices. Pressure to raise

prices is expected in the form of increasing pay settlements [22%], finance costs [27%] and raw material prices [19%]. Over 40% cited other overheads.

According to the British Retail Consortium retail sales continued to grow although growth slowed in February rising by only 3.4% compared to February 1997. This compares to a 6.1% rise in January 1998 over January 1997 and 4.8% in December.

Company news included the Scottish newsagent, John Menzies, confirming the sale of its retail division to WH Smith for £68 million. John Menzies will effectively withdraw from the High Street although the name will be retained in Scotland but be replaced in England. No shop closures are forecast for Scotland, although there may be some outside Scotland where both WH Smith and Menzies already trade. There may be job losses in administration, possibly at John Menzies headquarters in Edinburgh. The deal excludes Menzies newspaper distribution and airport cargo handling operations.

Dundee based Watson & Philip announced an expansion program initially expecting to open more than five Alldays outlets a week during 1998 (mainly through franchises) expanding from 750 to more than 1,00 shops, and possibly creating 20,000 full and part time jobs across the UK in the next five years. The company also operates W&P Foodservice which recently signed a £45 million food delivery deal with Queens Moat Hotels. The company announced a 22% rise from £17.3 million to over £21 million in the 53 weeks to November with operating profits in the Alldays chain rising by 29% to £19.5 million on a 17% rise in sales to £324 million.

TRANSPORT

Road

Stagecoach saw a 50% rise in first half pre-tax profits for 1997 from £47 million to £70.5 million. In the six months to October turnover increased from £405 million to £681 million. The UK buses business saw a 1.9% rise in passenger numbers while the industry suffered a 1% decline generally. Porterbrook has been one of Stagecoach's best performers where operating profits rose from £13 million to £62.7 million. Arriva, formerly the Cowie Group, and operators of Clydeside Buses saw pre-tax profits soar to £101 million in 1997, a

24% increase on the previous year. Half of the profits came from the buses division where pre-tax profits were £50.1 million compared to £33.7 million in 1996. Arriva is now the second largest bus operator with a fleet of 7,000 vehicles based at over 100 locations.

The Standing Advisory Committee on Trunk Road Assessment (SACTRA) has published findings that show that new road investments do not always bring economic benefits to the regions they are intended to help. They are recommending a more rigorous assessment of road schemes, a greater environmental impact analysis and guarantees over economic benefits as stated in new road proposals. They do acknowledge that transport investments do increase access to skilled labour and expand markets.

The M8 superhighway project costed at £150 million, between Baillieston and Newhouse is to be abandoned. In line with the current roads review a more modest upgrading of the A8 will take place.

Rail

Plans for a £220 million rail freight expressway between Scotland and the Channel Tunnel could be given the green light ending months of speculation and uncertainty. The scheme could see the removal of 500,000 lorries from UK roads. Railtrack have already trimmed £100 million from the cost of bridge alterations and if a mix of public/private finance were used then there would be less need for additional Treasury funding. This would also reduce the Government's commitment to the £35 million annual freight grant. Capacity on the West Coast Mainline (WCML) could double over five years allowing stacked containers and 'piggy back' trailers. This scheme is dependent on the £2 billion upgrading of the WCML.

The owners of Scotrail, National Express (NE), have secured an important victory from the Monopolies and Mergers Commission (MMC) after its review of NE's transport business. NE has five of the 25 rail franchises and operates Citylink, the Scottish coach group. The MMC requires NE to sell off Citylink and refrain from operating another Scottish coaching network before a new owner is found for Citylink. NE now controls the largest single rail network to survive privatisation. The MMC's main concerns were that Scottish coach fares would rise as rail fares fall and that since the number of households without a car in Scotland is well below the national average, both coach and

rail fares could increase as car competition would not be effective. Scotrail have already cut fares on selected routes where coach competition has won over passengers. Should the cuts prove successful in attracting back customers then they will undoubtedly be repeated elsewhere.

The National Audit Office (NAO) has published evidence that the privatisation of the rail rolling stock companies (Roscos) may have cost the taxpayer £1 billion. They were privatised for £1.8 billion and then sold on two years later for a profit of £850 million. The NAO has calculated that at privatisation the companies were worth £2.9 billion. At Porterbrook and Eversholt the management/employees turned investments of £0.3 million and £0.4 million into returns of £56.8 million and £33.6 million respectively. One director received £33.6 million and these figures have prompted speculation about a subsequent windfall tax. This is highly unlikely however due to the government selling the windfall tax as a one off and the complexities of administration.

Firstgroup look as though they will secure the sale of Great Western Trains for £150 million. This comes after John Prescott's intervention blocking the sale. This has had the effect of lowering the price from £200 million. The move was designed to reduce windfalls to directors.

Air

BAA has seen pre-tax profits rise by 4.5% to £415 million in the nine months to the end of December. Retail values increased by 7.3% to £354 million while property income rose by 8% to £181.4 million. Duty Free International made an exceptional contribution to profits due to the acquisition of an American group. The Scottish airports outperformed the rest of the UK with a 10.2% increase in passenger numbers compared to 7.2% for the UK. Interested parties in the Highlands and Islands are lobbying the government and British Airways to have the Inverness flights to London reallocated to Heathrow airport. This follows a downturn in business and tourists especially overseas visitors who use Heathrow but are not now travelling to Inverness.

TOURISM

The Fraser of Allander Institute, in co-operation with the Scottish Tourist Board, conduct a survey of around 1800 tourism establishments in Scotland.

The results for the fourth quarter of 1998 are summarised below.

Overview

Confidence rose marginally for a net of large hotels, remained level in B & Bs but declined for a net of self catering and visitor attractions. Only large hotels reported a rise in demand, in all other areas a net decline in demand was reported. Demand was generally weaker than a year ago, large hotels were more concerned as to higher levels of price competition and the high exchange rate than at the end of 1996. Amongst family hotels, B & B and self catering establishments the lack of demand was more widely cited than a year ago.

Investment intentions continued to rise in all sectors, although investment authorised in quarter four, except amongst visitor attractions, was most commonly for replacement. Average capacity used was slightly higher than a year ago amongst large hotels, at the same level in family hotels and self catering establishments, but lower amongst B & B respondents. Visitor numbers were lower than a year ago for almost 40% of visitor attraction respondents. The level of pay increases was slightly less in the fourth quarter, and recruitment activity was lower than a year ago, possibly the first signs of some easing in the labour market.

Large Hotels

Rising business confidence was a feature of 1997, although the rate of increase progressively weakened through the year from a net of +22% in quarter one, to a net of +1% in quarter four.

For a further quarter demand was stronger than anticipated. Overall 59% reported increased demand, and only 25% reduced demand (a net increase of +34%). Demand from all areas was stronger than anticipated, although once again, net balances were not as strong as in the same quarter a year ago. Since the first quarter of 1997 the trends in rest of UK and overseas demand have been weaker than those reported in 1996. Once again almost 60% expect a change in demand in the first quarter, yet the percentage expecting rising demand eased to 31% (a net increase of only 2%). Once again expectations are weaker than a year ago, due mainly to weaker rest of UK, overseas and business demand.

Price competition, weaker business trade and the high exchange rate are regarded as more significant constraints on sales than a year ago. Paradoxically concerns as to the level of demand are cited slightly less frequently than a year ago.

Changes to investment plans affected 58%, the rise in investment continued at slightly lower levels compared to quarter three and to the fourth quarter of 1996. Replacement and improving facilities were again cited as the two most important reasons for authorising investment in the fourth quarter.

Average use declined from 78% in quarter three to 57%, nevertheless it was three percentage points higher than in the fourth quarter of 1996. 59% reported increased turnover and 34% increased costs, the net increase in turnover and costs was lower than a year ago, and the anticipated increase in turnover in the first quarter is more modest than a year ago.

Almost two thirds reported no change in the numbers employed, but the trend, a net drop of 2%, was better than expected. Employment is expected to decline in the first quarter. The average pay increase in the fourth quarter fell to 4.6%, the lowest increase since the survey started. The percentage seeking to recruit eased to 72%, slightly higher than in the same quarter a year ago. Once again difficulties in recruiting suitable skilled staffs were widely reported.

Family Hotels

Once again changes in optimism affected less than 50%, nevertheless, the decline in confidence continued and steepened as the anticipated decline was realised. Confidence has been lower in the second half of 1997 than compared to July-December 1996.

Changes in demand were again broadly based, affecting more than two thirds, whilst 28% reported rising demand and 40% reported lower demand (a net balance of -12%). Demand from all areas fell, with the steepest decline reported for overseas demand. Demand has proved weaker in the second half of 1997 than in the previous year. Once again 20% expect demand to rise, but almost a third expect demand to fall, Scottish and overseas demand are expected to be very weak, and expectations for the first quarter are more depressed than a year ago. The deterioration in demand is identified as the factor most likely to restrict activity in the first quarter and compared to

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a year ago the percentage citing lack of demand has risen nineteen percentage points to 71%. Once again the strength of the pound and downward pricing of package holidays seem to be the underlying factors.

32% revised investment plans upwards and 20% downwards. Investment authorised in quarter four was mainly for replacement (58%) and to improve facilities (28%). Average use of facilities eased from 70% in quarter three to 54% in quarter four. Average capacity used was the same as a year ago. The rise in costs was slightly more than anticipated. 52% reported increased and 6% reduced costs, this rate of increase is expected to continue.

More than two thirds reported no change in employment levels, and the overall change was marginal (a net decline of 3%). The anticipated steep decline did not occur.

Bed and Breakfast Establishments

Changes to confidence were at the margin, affecting 30%, overall confidence remained unchanged (a net balance of 0%), although the low number of respondents in the fourth quarter may indicate these results are not based on the usual respondent population.

Once again the trends in demand were better than anticipated, and the decline was less than predicted. Nevertheless, demand from all areas appears weaker than a year ago, whilst rising demand was reported by 21%, however 25% reported falling demand. Demand is expected to remain weak through the first quarter, although the expectations are not as bleak as a year ago.

The lack of demand is cited by the overwhelming majority (83%) as the factor most likely to restrict activity, concerns as to demand are some 24% points higher than a year ago.

Changes to investment plans were reported by slightly more than 40%, no respondent reported revising investment downward. Investment in the fourth quarter was more directed towards replacement, none reported investment for new facilities. Average capacity used fell to 59%. Changes to costs were reported by a third, and 23% reported increased costs, less than had been expected, more than a third expect costs to rise in the first quarter.

Changes to employment affected 21%, all of whom noted a reduction in employment, mainly the expected decline in the numbers of seasonal and temporary staffs.

Self Catering Establishments

The decline in confidence, a feature of 1997, continued and steepened slightly as the anticipated decline in demand occurred. A quarter of respondents reported being less optimistic, whilst only 15% reported being more optimistic than in the previous quarter.

Demand had been expected to fall, and more than 40% reported declining and only 12% increased demand. More than 50% reported no change in Scottish and rest of UK demand, nevertheless, overall demand fell sharply. Expectations for the first quarter are weaker than a year ago.

Changes in investment plans were more broadly based than in the previous quarter, the strong rise continued, investment authorised in the fourth quarter was again mainly directed towards the replacement of equipment (60%) and to improving facilities (26%).

Average use of facilities eased from 74% in quarter three to 67%, fractionally higher than a year ago. Once again costs rose at a slower rate than anticipated, the net balance of 38% reporting rising costs remains fractionally higher than a year ago.

Changes to employment affected less than 25%. The decline was less than anticipated as 15.4% reduced employment whilst 5.8% reported increasing employment in the fourth quarter.

Visitor Attractions

Changes in business confidence affected less than a third, however, the decline in confidence continued as 9% reported increased and 22% lower confidence than in the third quarter.

The trend in the volume of total visitors was again less than anticipated, and the net decline, a feature of much of 1997 continued, as 40% reported reduced and only 29% increased visitor numbers. Overall the decline in numbers was less than had been reported in the third quarter.

The rise in investment plans has weakened through 1997 from a net of 30% in quarter one to a net of 11% in quarter four. Changes to investment plans

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were reported by 56%, as 24.4% revised plans upwards and 13.4% downwards (18.3% reported not relevant). Investment authorised in the fourth quarter continued to be directed towards improving facilities (42%) and replacement (39%).

For much of 1997 respondents have reported visitor numbers lower than a year ago. In the fourth quarter almost 40% reported visitor numbers lower, and only 22% higher than a year ago. The trends in income and costs were lower than a year ago. The rise in income was stronger than predicted as 36.7% reported increased, and 28.3% reduced income in the fourth quarter. A quarter reported increased costs, leading to a net balance of +14%.

Changes to employment levels affected 29%, 5.3% reported increased and 23.7% reduced employment, mostly due to reduced numbers of seasonal or temporary staffs.

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	Small Hotels	B&B	Self Catering	Visitor Attractions	Large Hotels
No. of respondents	82	27	73	82	106
Optimism	-18	0	-10	-14	+1
Demand					
Total guests	-12	-4	-28	-11	+34
Scotland	-16	-23	-35	0	+18
Rest of UK	-12	-14	-16	-17	+17
Abroad	-36	-24	-36	-29	+2
Business Trade	*	*	*	*	+30
Factors likely to restrict sales	71	83	68	26	34
lack of tourist demand	16	13	16	48	18
weather	8	0	8	16	14
price competition	0	0	2	5	2
inf of tour operators	4	4	6	5	4
insufficient space	*	*	*	*	19
poor business trade	*	*	*	*	1
shortage of labour	*	*	*	*	9
high exchange rate	0	0	0	0	0
other					
Investment intentions	+12	+41	+34	+11	+31
Reasons for investment replacement					
expansion	58	64	60	39	50
improve facilities	6	4	4	10	13
new facilities	28	32	26	42	32
	8	0	9	10	5
Capacity used	54	59	67	*	57
Turnover	*	*	*	+8	+38
Costs	+46	+15	+38	+14	+22
Average daily room rate/charge	*	*	*	*	+22
Total employment	-3	-21	-10	-18	-2
Pay increase	*	*	*	*	4.6
% Recruiting	*	*	*	*	72